

EXHIBIT 2

SAYBROOK

GRADUATE SCHOOL • RESEARCH CENTER

President's Report

Board of Trustees Meeting • November 8, 2004

To: Arthur K. Wachtel
Chair, Board of Trustees
Saybrook Graduate School and Research Center

From: Maureen O'Hara, President

CC: Board of Trustees, J. W. Reho, K. Clarke

Date: October 28, 2004

Subject: Enrollment Issues and Marketing Response

Dear Arthur,

You have requested a written report on the lower than planned enrollment that Saybrook has experienced over the past three semesters. Jack Reho has prepared a written report on the financial and operational impact which the drop in the fall 2004 enrollment may have had on our operating outlook for the 2004-05 school year. The VPAA is preparing information on the enrollment, attrition and graduation levels during recent years, which will be provided in a separate document at the Board of Trustees meeting on November 8, 2004.

The objective of this memo is to briefly discuss the situation regarding new student enrollment during the last several years and the decline that we have recently experienced.

I will try to will identify as far as we know and briefly describe factors which may have contributed to the lower enrollment.

From our preliminary review to date of these factors, we have identified that in light of the changed context in which Saybrook is now operating, we need to develop a more effective and relevant marketing, advertising and recruitment strategy and materials.

I will outline the actions that we have undertaken in the last few weeks to begin the process to frame a marketing strategy and to engage personnel who can assist the school in change in this area. This memo briefly touches upon some changes we are promoting for long term curriculum enhancements and shifts in focus, which may help long term enrollment. Again, this topic will be covered in separate material for the board, prepared by Katherine Clarke, and should be discussed separately from this current topic of near term enrollment issues.

The issues we are facing today, I believe, are essentially those I discussed with the board when I became President seven years ago. After several years of growth, the external pressures we were anticipating in 1998 are accelerating. . These issues include the competitive pressures from for-profit educational organizations, accreditation issues arising in professional licensing, the continued challenge of offering personalized graduate programs at reasonable costs and the difficulty of making changes within our WASC accredited, non-profit, educational community. I

suggest that Saybrook's board and administration needs to plan to expend some significant time and resources to reexamine the means by which Saybrook's mission may be accomplished or accommodated in the future. At the meeting on November 8, 2004, I recommend that we specifically plan a series of strategic planning and analysis sessions where we examine and consider the future.

I recommend that we plan to devote up to one hour to discuss the enrollment issues and associate topics during the forthcoming Board of Trustees meeting.

Enrollment Challenge at Saybrook

Saybrook has enrolled significantly fewer students than expected or budgeted for over the past three semesters and it is possible that this may continue in the March 2005 semester. The financial impact of this decline has been addressed in a separate memo prepared by the Vice President of Finance and submitted to the Executive Committee of the Board early in October (See attached copy). This memo is intended to provide some commentary on the underlying issues surrounding the issue of lower than expected new student enrollment.

Between the fiscal year commencing in September 1997 (1997-1998) thru the 2002-2003 school year, Saybrook enrollments increased significantly, taking the students from just under 350 students to more than 500 students. Saybrook's enrollments reached a high of 525 students in 2003-2004. Beginning with the semester commencing September 2003 and continuing in March 2004 and September 2004, the number of new or readmitted students enrolling in Saybrook declined from the levels experienced in the previous two cycles (fiscal years). For the school year which has just commenced, Saybrook's active student enrollment (which includes full time, part time and students on authorized leave status) was 507, approximately 18 students below the high reach in 2002-2003. (See tables 1.2/1.2). Total students include full-time, part-time and authorized students on leave. The number of FTE tuition paying students appeared to decline from 474 students last year to an estimated 426 students in the current year. (See table 1.3).

During this same period, Saybrook has increased the tuition paid by each student by 3-6% per year. The increasing enrollments and tuition rate provided important revenues which allowed the school to expand its infrastructure and staff, necessary to provide service and systems to the growing number of students. (See table 1.3)

Total student enrollment is also impacted by attrition (students withdrawing from school) and graduation. In 1998-9 we introduced some steps that established new minimum academic progress standards and this resulted at first in a growth in our annual attrition rate. Since then steps to improve service to students has resulted in a decline in this rate. The rate of graduations per year is impacted by whether students are masters or doctorate candidates and the speed with which the student completes their coursework. It appears that students are completing more coursework in the last few years than in earlier years, which appears to indicate that students will be taking less time to complete their degrees. This was a planned speed up to respond to concerns about the length of time some of our students were taking to complete their programs. Ultimately, this acceleration by students in completing their degrees inevitably places more pressure on the need for new enrollments.

Were it not for the increasing cost borne by each student attending Saybrook, the revenues received by Saybrook would have materially declined in the current year. Saybrook has invested in technology and hired additional administrators to manage the delivery and administration of education services to a student enrollment of 500+ students. The decline in new enrollments in each of the last three semesters is placing great pressure on the ability of the school to operate at a profit, or at a minimum to not sustain a loss in current reserves.

In order that Saybrook remain competitive, engage in the necessary activities to sustain and maintain its WASC accreditation, and sustain and improve its workforce and technology, **the decline in annual enrollment must be addressed and reversed.**

If the annual enrollment of new or readmitted students cannot return to the levels experienced in the 2002-03 school year, then Saybrook must examine its long term outlook. Saybrook could consider rationalizing and changing its organizational structure and plans for ongoing investment and revise them to fit lower levels of annual income. Alternatively, it may need to consider taking steps such as merging with another institution, acquiring another school or engaging in another affiliation that would produce the funds required to sustain the organization and infrastructure necessary for the current student population, accreditation requirements and related operations.

Decline in New Student Enrollment-Contributing Factors

The problem is undoubtedly multi-determined with several factors contributing to the current decline in new student enrollments. The listing below is a series of independent actions, events or situations that occurred during the past two years that the management of the school has been considering as possible contributing factors. Unfortunately, we have not yet collected data that would confirm that these factors directly reduced enrollment in the past 18 months.

1. The delay between the departure of the Vice President for Recruitment and Admissions, Mindy Myers, and the hiring of a permanent replacement, Geoff Smith.
Approximately nine months passed between Mindy's departure and the engagement of Geoff as a full time Admissions Director. During this time, the department operated with only three individuals, as opposed to four, and the experience level of these personnel could not make up for a missing VP.
2. The departure of the Assistant Admissions Director, Demetry Apostle, in October 2003.
Though Demetry's replacement was engaged before he departed, the initial 3-6 months of Diana's employment were directed toward reviewing and changing many of the admissions procedures and systems. While she was able to spend some time traveling to recruitment events, we may have lost some momentum during this time.
3. Demands in the roles of the Dean of Admissions and Associate Dean of Admissions Dir may have resulted in insufficient contact with prospects or time spent in working marketing issues with Saybrook management.
There may have been more work to be undertaken than these individuals were able to perform, given what they needed to learn and the areas that required attention.

- a. Both the admissions director (Geoff Smith) and assistant admissions director (Diana Hernandez) worked extensive hours in engaging in their new roles with Saybrook during the 2003-2004 school-years. It was not uncommon for these individuals to be working 50-70 hours/wk during the past year. They expended significant time and energy in reorganizing the systems and processes of the department to better track and recruit applicants.
 - b. Changes were initiated in the direction of marketing efforts, moving to a more a direct mail approach—more characteristic of traditional academic institutions-- , which required that new materials be produced and numerous mailing be initiated and managed.
 - c. Additional efforts were undertaken to create new brochures, which were simpler to produce and deliver, but required significant time from the director.
 - d. Simultaneously, the assistant director expended considerable time in analyzing the admissions management systems and undertook to identify numerous important changes to the content and process by which this system would operate, thereby devoting a significant portion of her time to this activity.
 - e. Though the travel and advertising activities were necessarily reduced in the 2003-04 school year, both the director and assistant director engaged in travel to make presentations and commenced programs to meet with applicants on a regular basis at Saybrook's office.
 - f. Both of these individuals were new to humanistic psychology and the character of the students which are attracted to Saybrook and the unique educational model we offer. This presented some development needs for both, which were slower than anticipated to achieve given the demands of their positions.
4. The incomplete development by Mindy Myers of state of the art systems that would clearly identify and track prospect, applicant and matriculated students with respect to recruiting source, as well as the lack of completion in tracking information in our student management system negatively affected enrollment.
- Smith and Hernandez identified weaknesses in system they inherited and immediately devoted significant time and effort to get these tools designed and programmed for use. Efforts to complete this task took away from other marketing and recruiting efforts and assessing the lack of applicants in a timely manner. There also appears to have been some delay in their ability to convert expertise and skills in projecting enrollment results from the traditional academic environment to the Saybrook situation resulting in an over-optimistic assessment until very late in the cycle.
5. The lack of resources in the past.
- The lack of resources to provide for the collection, assessment and evaluation of institutional data that could relate applicant/prospect sourcing with actual admissions or enrollment, or to compare Saybrook's programs to competitors, or to track and report on changes in the education marketplace and their impact on Saybrook's competitive position left holes in the marketing effort.

6. A change in the emphasis for recruiting and attracting students.

- a. Under the Mindy Myers' approach, extensive travel to small/large groups was undertaken by the admissions staff. Two or more open houses were held at Saybrook. Advertising in numerous magazines or journals was placed, much of which was directly designed by Myers and the graphic artists who reported to her. Print advertisements used pictures of people and a message relating Saybrook to those people's interest or needs.
- b. Under Geoff Smith's (Director of Admissions for 2003-04 school year) regime, direct mail campaigns were introduced, with advertisement in journals while travel to conferences or cities was reduced. Advertising was restricted, to an extent, to journals or magazines which provided an improved means of accountability of respondents to advertisements in such publications. Concerned that our new advertising materials were lackluster and not having the desired impact, late in the year, a new concept in advertising was developed through discussions with the VPAA and the President, which did not appear until August/September publications.

7. An increase in tuition and fees

Tuition was increased to the point that the Stafford Loan Program was insufficient to provide funds to cover a student's tuition, conference fees, book cost, conference fees and conference travel and hotel costs. In 2003-04 tuition was increased to \$15,250 from \$14,750. In 2004-05, tuition was increased to \$15,800. Residential Conference costs increased from \$600 to \$750 in the current year.

8. The price point of Master's degree

The price point of the Master's degree is nearly double that of competing M.A. degrees. Recruiting personnel were instructed to focus on increasing master's level enrollment but found themselves trying to sell a product that was not competitively priced.

9. Whole Year Pricing

The "whole year" pricing of the degree programs is unattractive to students who are working fulltime and want to take only 6-9 credits per semester. It is a high demand to expect working adults to complete 9+ graduate units each semester. We believe that a part time, per unit option would strengthen our market appeal, but we have been unable to find a way to sustain the drop in revenue that would occur if we changed to a per unit tuition.

10. Lack of APA Accreditation

The chilling or dampening impact of including in our advertising and web materials, the information that Saybrook is not APA (American Psychology Association) accredited, and the fact that in some 17 states a clinical student from Saybrook may not be eligible to sit for licensing as a clinical psychologist in those states. On advice from counsel we have moved to warn students wishing to sit for licensing that Saybrook may not be the right school for them.

11. Confusing Media Materials

The impact of "ensuring" that media materials were clear in identifying that Saybrook was an at-distance, mentor guided program institution, which may have created some confusion in prospects reviewing Saybrook's materials or website.

12. Archaic Content

The stale content in advertising materials, in the student catalog or in web materials which originated from the 2000-01 catalog or other "aged" brochures was also a factor. No significant update in the marketing write-up of such materials to give it an attractive or spin has been undertaken in more than three years. Recent revisions in brochures, the catalog or on the web have focused on improving accuracy, clarity, compliance, etc. In the view of many, current content is not presented in a manner that "sells" Saybrook, its programs or faculty.

13. Competing Priorities

There were other priorities within the school that limited human resources for new curriculum development (new products). Revamping of courses to on-line web based mode, redesign of MFT program, responses to licensing issues (and ultimate decision to go for Psy.D. program), resolution of faculty workload, development of new evaluation and assessment strategies and methods, enhancement of the research curriculum, and other such matters absorbed time of personnel that might otherwise have helped in enhancing the curriculum and commencing other new program efforts (Master's Degree in Aging, leadership curriculum enhancements for OS, etc.).

14. The resignation of Geoff Smith in August as Dean of Admissions.

Diana Hernandez was promoted to Admissions Director and is attempting to reorganize her work and that of her two full time personnel to cover the work previously performed by four individuals. Diana does not have any significant experience in creating or producing marketing analysis or marketing materials.

Preliminary Management Conclusions

Saybrook does not yet have a market assessment and strategy for recruiting and enrolling students that is based upon analysis of data from students, prospects or the analysis and comparison of our programs to our competitors. Until now recruitment at Saybrook has relied heavily on personal charisma, word of mouth, faculty prominence and the fact that we were one of the few institutions where a student could pursue a non-residential degree at the Doctoral level. This approach no longer serves us well, and Saybrook needs to expend resources and gather data, make assessments, form conclusions and act upon those conclusions to formulate a new approach in marketing Saybrook to prospective students.

In assessing the marketplace, Saybrook needs to determine not only how it might create new marketing materials, but equally important to update its assessment with a thorough examination of the education marketplace regarding the viability of a tuition based graduate school that relies principally upon tuition paying doctorate students for its revenue source.

From a marketing perspective, after collecting information and creating an internal assessment of Saybrook's program strengths and attractive elements, we need to use this information in creating, updating or revising its advertising, web-site or other media materials. We also need to use this information in training and educating all members of the admissions department, student services personnel and faculty about our message and how we would like to see it communicated.

Short-term changes in marketing or web materials need to be developed and in place before March 2005. An improvement in enrollment needs to be realized by September 2005. The school plans to engage someone who has marketing and advertising experience as a full-time employee to lead the effort to change and sustain a consistent marketing program.

In order to deal with workload issues and the need for significant analysis, assessment and creative output, Saybrook plans to engage an outside consulting firm to provide the experience and resources to perform the analysis, assessment and implementation assistance necessary to make a difference in marketing materials that are used after March 2005. Additional staffing assistance will also be provided to the admissions and recruiting staff to continue the improvement efforts commenced by Diana and Geoff in the prior year and to address the issues currently facing the school because of shortfalls in enrollment.

The assessment of Saybrook's position in the educational marketplace and the role for a school like Saybrook needs to be completed over the next several months.

Actions Undertaken

In response to the lower than budgeted enrollment, school management have taken steps to reduce all discretionary spending, defer hiring certain replacement personnel and reduce expenditures in non-discretionary areas which would not materially impact day-to-day services to students. Financially, the school expects to realize no growth in its net assets for the year, and will essentially produce a breakeven year.

In respect of the larger issue, to improve school enrollments for March 2005, September 2005 and beyond, the following actions have been undertaken.

1. We are advertising to hire an individual at the Vice President level to be responsible for marketing, communication and recruitment, to whom the Dean of Admissions will report.
2. We have sent a request for proposals to three communications and marketing firms, looking to engage a firm that will provide assistance in assessing the market position of the school, developing a marketing strategy, assisting implementation of such strategy and providing the necessary human resources to accomplish these tasks in the next 90-120 days.
3. We have authorized the Dean of Admissions to hire additional resources to perform personal solicitation or administrative work for the department. Using work study funds, we are engaging some students who have attended Saybrook for some years to perform prospect recruiting, either through telephone marketing calls, attendance at conferences

or recruiting events and other such related actions. We are also looking to engage some part-time faculty to provide assistance in this activity. Further, resources from another department in Saybrook will be made available to supplement the administrative support available for routine processing activities within this activity.

4. The executive leadership has met and developed the assessment reflected in this memo and is examining other topics to determine relevance, as well as whether to incorporate additional action steps for addressing the enrollment question.
5. The entire management team has met and reviewed my objectives for the year and discussed specifically steps that might be undertaken or scheduled to specifically ensure that actions associated with marketing, enrollment or related matters are staffed and completed in a timely manner.

Next Steps

The school administration will hire a new Vice President for Marketing and Enrollment. A marketing consultant is expected to be engaged either just before the November 8, 2004 Board of Trustees meeting or shortly thereafter.

Saybrook's management and staff will work closely with the consultants and the new marketing executive to expeditiously complete analysis and develop new marketing or media materials. I expect that the fruits of these efforts will be seen in written and communicated marketing strategy by February 2005, in new marketing materials/advertising content in publication by March 2005 and in revised web content in selected places by mid-to-late January 2005.

In addition to this, focused efforts will be made to improve the conversion rate for the higher than usual number of students who were accepted for the Fall semester but deferred until the Spring.

I will provide status reports to you periodically on our progress and will plan to have an in-depth review at the March meeting of our progress in these efforts.

I recommend that the Board undertake to discuss during the November meeting the process by which its members will engage to examine and reflect upon the long term position of Saybrook in the educational marketplace and steps that will best ensure the long term accomplishment of our mission.

Tables

1.1 Student Enrollment for Period Indicated

	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005*
New & Readmitted students for Year	138	102	188	191	156	75
September Enrollment total	412	431	461	523	525	507
March Enrollment total	430	434	486	521	516	--

*Data reported is only for September 2004 while other data is for full fiscal year.

Table 1.2 Student Enrollment for Period Indicated By Degree

Academic Year	Fall Semester							Spring Semester						
	MA	PhD	Total	New	W/D	MA Grad	PhD Grad	MA	PhD	Total	New	W/D	MA Grad	PhD Grad
1999-2000	65	347	412	91	48	1	3	67	363	430	47	29	9	21
2000-2001	73	358	431	63	54	8	10	75	359	434	39	40	10	16
2001-2002	80	381	461	103	66	4	10	106	380	486	85	51	13	20
2002-2003	130	393	523	117	80	7	14	118	403	521	74	63	14	29
2003-2004	117	408	525	97	57	6	11	118	398	516	59	42	26	17
2004-2005	110	397	507	75										

*Data reported is only for September 2004 while other data is for full fiscal year.

1.3 Student Tuition for Period Indicated

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005*
Tuition Per Student	13,125	13,800	14,500	15,250	15,800
Tuition revenue net of grants	4,846,834	5,757,739	6,668,244	7,233,045	6,733,651
FTE	369	417	460	474	426

*Data reported for 2004-05 is current forecast, while figures in other columns are actual results.